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Charles Bernstein/Page F3

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Nation's
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The Weekly Newspaper of the Food-Service Industry

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Ponderosa ropes Bonanza

Metromedia deal rocks steak-house operators

By Bill Carlino

Facing the prospect of competing against a 1,300-unit behemoth, budget steak-house operators are bracing for the shock waves of Ponderosa's planned acquisition of Bonanza.

The deal, orchestrated by Ponderosa's parent company, Metromedia Corp. of Secaucus, N.J., means the telecommunications conglomerate would control about one-third of the entire $4 billion steak segment.

The $70 million agreement sparked concerned reactions from chief executives of competing steak-house operations.

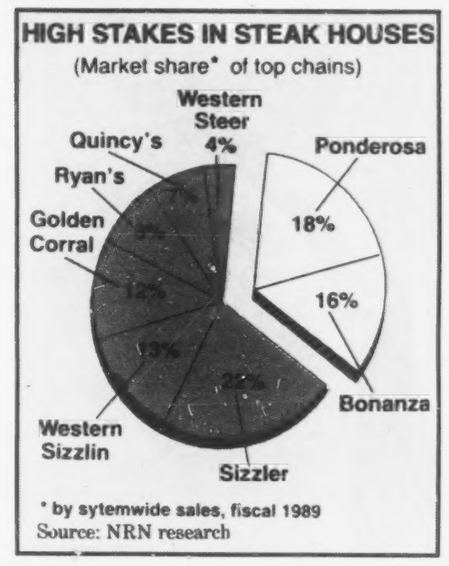
"Whatever their final plan, this definitely gives them more clout in the form of purchasing power and advertising," said Richard Bermingham, chief executive of Collins Foods International Inc. Collins operates the 630-unit Sizzler restaurants. "Steak operators will now have to keep watching over their shoulders."

Mike Stack, chief executive of the 530-unit Western Sizzlin', said his expansion plans into the Midwest and East Coast — area strongholds of both Bonanza and Ponderosa — could be affected by the merger.

"Right now we're pretty well entrenched in 13 states where we don't have a lot of competition from either chain," Stack said. "But once we branch out into those areas, that could change."

Ted Fowler, president of the 500-unit Golden Corral Steakhouses, said that although the possible integration of the two concepts will be formidable, it will take time before they're ready to con-

*(See **PONDEROSA**, page 161)*



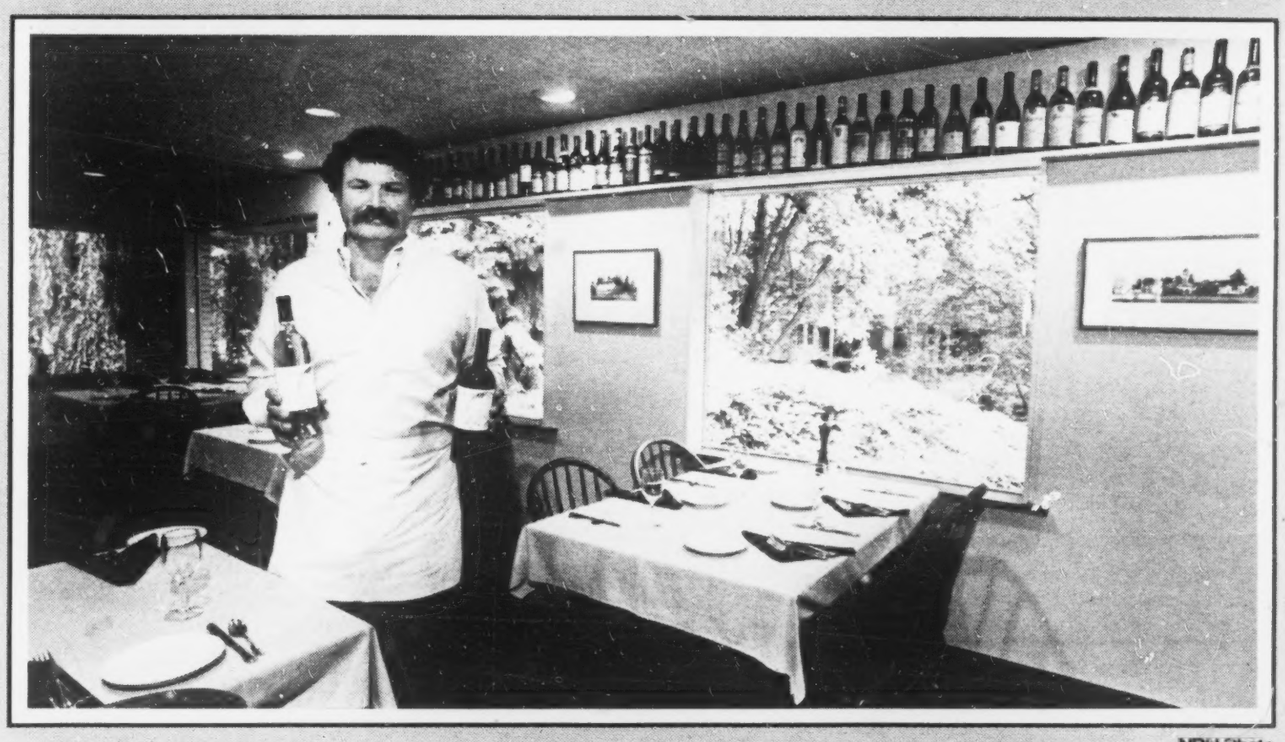
IN FOCUS: WINERY RESTAURANTS

FOOD & VINE

Food-service operators are getting an unexpected lesson in wine promotion as vintners across the nation open restaurants with innovative merchandising techniques.

While many wine makers have yet to find profits in the restaurant business, some of the leading winery restaurants are developing new food-and-wine combinations that are taking American regional cuisine to new heights of imagination.

Full report, page F20



NRN Photo

Wine maker-restaurateur Peter Dow in the dining room of Cafe Juanita.

FOOD WATCH

Hook, line and taco

SAN DIEGO — Authentically Mexican or creatively reinterpreted, the fish taco has become a trendy, hot-selling signature dish.

Rubio's Deli-Mex has sold more than 3.2 million fish tacos. Sandwiched in a soft corn tortilla and served with lime wedges, they include deep-fried pollack in a rosemary-garlic-flavored breading, shredded cabbage, Mexican salsa, and a mayonnaise-yogurt sauce.

The Pacifica Grill offers one with mesquite-grilled swordfish, sun-dried tomato salsa, and baby lettuces.

At George's at the Cove in La Jolla, mahi-mahi tacos are garnished with red and green cabbage, fresh salsa, guacamole and a caper-laced aïoli sauce.

— Richard Martin

Glut trims profits for Florida operators

By Jack Hayes

ORLANDO, Fla. — The sun-filled skies that lure tourists by the millions here from every corner of the nation are starting to darken for the owners of Florida's 35,000 restaurants.

With competitors swarming in from all directions, like love-bugs on an August night, Florida operators attending the Southeastern Food Service Expo here said that oversaturation is forcing them to give away profits in order to stay in business.

"We're becoming our own worst enemy," growled Ralph Lupton, past president of the Florida Restaurant Association, who runs a two-unit barbecue-steak-house operation in the Tampa market.

Other operators among the more than 15,000 who convened here for the three-day show echoed Lupton's sentiments.

"There's far too much competition," complained Aaron Fodiman, president of The Kapok Tree Restaurants based in Clearwater.

"In every strip mall there are two or three restaurants, and I've counted 21 malls in

*(See **FLA.**, page 4)*

Chief exec at Arby's is ousted

Move follows franchisee bid

By Rajan Chaudhry

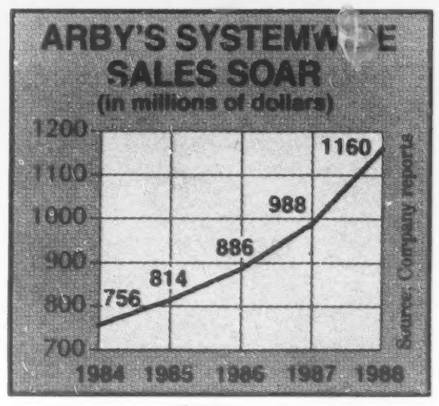
ATLANTA — Arby's chief executive Leonard Roberts was ousted from the nation's largest roast beef sandwich chain after breaking ranks with chairman Victor Posner over a franchisee buyout offer.

Roberts had already resigned his post as vice chairman of Posner's DWG Corp., Arby's parent company, in protest over the financier's refusal to consider a $200 million cash buyout offer from a group including Arby's largest franchisee, RTM Inc.

In resigning from DWG, Roberts said Posner rebuffed the offer without board approval and independently planned "a series of actions that will severely harm the Arby's system."

DWG denied the charges.

*(See **ARBY'S**, page 161)*



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NEWS DIGEST

Pizza Hut puts pizzeria inside a Denver 7-Eleven

DENVER — Pizza Hut has installed a small kiosk-type pizzeria inside a 7-Eleven store here to assess the feasibility of selling pizzas via the nation's largest convenience-store chain.

The Pizza Hut kiosk sells medium- and single-serving-sized pan pizzas for off-premises consumption. An undisclosed percentage of gross sales is paid to the 7-Eleven unit in lieu of rent. The cost of constructing the kiosk was split between Pizza Hut and 7-Eleven.

Pizza Hut is also putting scaled-down pizzerias in airport concessions and contract-feeding facilities managed by Marriott Corp.

Hamburger giants eye chicken-on-the-bone

DALLAS — After striking gold with chicken sandwiches and nuggets, several major hamburger chains are weighing the possibility of adding fried-chicken-on-the-bone to their menus.

McDonald's has just launched sales trials of fried drumsticks and other chicken parts in Dallas and Houston. The venture is part of the chain's ongoing effort to find new dinnertime draws.

Wendy's has offered bone-in chicken on the Superbar buffets of company units in the chain's home market of Dublin, Ohio. The fried poultry has been part of a home-style array that Wendy's has been assessing as a means to boost dinner traffic.

The addition of fried chicken would wing Kentucky Fried Chicken, which has already been stung by the burger specialists' introduction of poultry sandwiches and finger foods.

Dunkin' suitor raises offer to $45 per share

RANDOLPH, Mass. — The Canadian partnership doggedly pursing Dunkin' Donuts has raised its bid for the baker to $45 per share, or $308 million in the aggregate, from $43 per issue, or $294 million.

The suitor, DD Acquisition, said Dunkin' "would have to show very convincing financial data for it to be able to justify paying a higher price." The sweetened offer came at a time when, according to Dunkin', DD was warning Dunkin' shareholders that the value of their stock would plummet if the takeover was thwarted.

Dunkin', in a prepared statement, said it would convene a meeting of directors to evaluate the revised offer from DD. The suitor was formed earlier this year by Kingsbridge Capital, a holding of Toronto millionaire George Mann, and Cara Operations, a Toronto-based contract feeder and restaurant operator.

Skylark appoints Miller new Red Robin president

IRVINE, Calif. — Skylark Ltd., a Tokyo-based operator of 800 restaurants worldwide, has named William Miller the new president of Red Robin, Skylark's 54-unit hamburger chain and sole U.S. food-service operation.

Miller, formerly senior vice president of a major potato supplier, will succeed Jochi Ide, who will be promoted to vice chairman of Red Robin, Skylark said. The baton will be passed on Oct. 9, after the changes are confirmed by the Japanese company's board.

Miller will assume the president's office at Red Robin's headquarters here after a two-week orientation at Skylark's Tokyo offices, the parent company said.

Rally's drive-thru chain files for stock offering

LOUISVILLE, Ky. — Rally's Inc., operator of the fast-growing Rally's double-drive-thru chain, said it has filed for an initial public offering of more than 1.7 million shares of common stock.

The company is selling about 1.5 million shares, with the remainder being sold by certain stockholders of the company.

Rally's operates and franchises about 160 double-drive-thru fast-food hamburger restaurants.

Palacio Tzintzuntzan loses chef after a shark dispute

HOUSTON — Tony Baran, executive chef at the hot new Palacio Tzintzuntzan (pronounced seen-soon-saan) here, has quit, reportedly over a dispute with the restaurant's creator and main investor.

Baran, along with sous chef Scott Edelen and general manager Mitch Kwartler, quit Palacio Tzintzuntzan after an apparent argument with George O. Jackson Jr., who was said to have ordered the chef to provide a commercial photographer with a blackened shark dish not on the menu.

The 175-seat restaurant, open since May, features an East-meets-West menu. American Southwestern ingredients are prepared with Chinese and Thai cooking methods and served in Japanese presentations that Baran devised.

Twistee Treat fails to engineer merger

NORTH FORT MYERS, Fla. — Twistee Treat, the troubled soft-serve ice-cream chain based here, said that negotiations to merge with an unidentified Canadian concern have collapsed.

Before filing for bankruptcy protection in July, the operator said it might seek a merger with a privately held Toronto company in an attempt to infuse the 44-unit snack chain with much-needed cash. Twistee has lost $14.8 million since its inception in 1983.

Since that time, the franchisor has been peddling its assets, including company units.

Burger King to underwrite building of 10 high schools

MIAMI — Burger King Corp. said it is working with the U.S. Department of Justice and Cities in Schools Inc. to establish 10 fully accredited high schools, called Burger King Academies, to combat the nation's chronic dropout problem.

Expected to begin opening this fall, the schools will offer intensive instruction to drop-out-prone students in the ninth through 12th grades.

Each Burger King Academy will enroll up to 125 students, and classes will be limited to 15 to 20 students.

The first academy is scheduled to open in Miami this week. Seven others will open in early fall in Sacramento, Long Beach and Inglewood, Calif.; Columbia, S.C.; Palm Beach County, Fla.; Philadelphia; and San Antonio, Texas. Two other sites will be named shortly and will open by spring 1990, Burger King said.

NRA, MADD bury hatchet to team up on 2 fronts

WASHINGTON — The National Restaurant Association and Mothers Against Drunk Driving have suspended their long-standing feud to work together on two programs aimed at curbing alcohol-related automobile accidents.

Under an accord that the NRA termed "almost historical," the groups have agreed to jointly pursue passage of state laws that would discourage minors from using false identification to buy alcoholic beverages. Although the widespread practice is already forbidden, the harshness of the penalties often prompts law enforcement officials to balk at meting out punishment. The NRA and MADD would seek "reasonable" redress, such as the revocation of a minor's license, an NRA spokesman said.

In addition, "they want us to join with them in developing a national designated-driver program," the NRA spokesman said. Groups in many municipalities have already implemented such programs, in which one member of a night-tripping group forgoes drinking to safely transport the rest of the crowd. But the setup varies widely from locale to locale.

Because the majority of eating establishments serve alcoholic beverages, the NRA and MADD have long been at odds. Although their agreement marks a breakthrough, "there are areas where we would never be able to work together," the spokesman said.

FINANCIAL NEWS

Wall Street comeback leaves food stocks behind

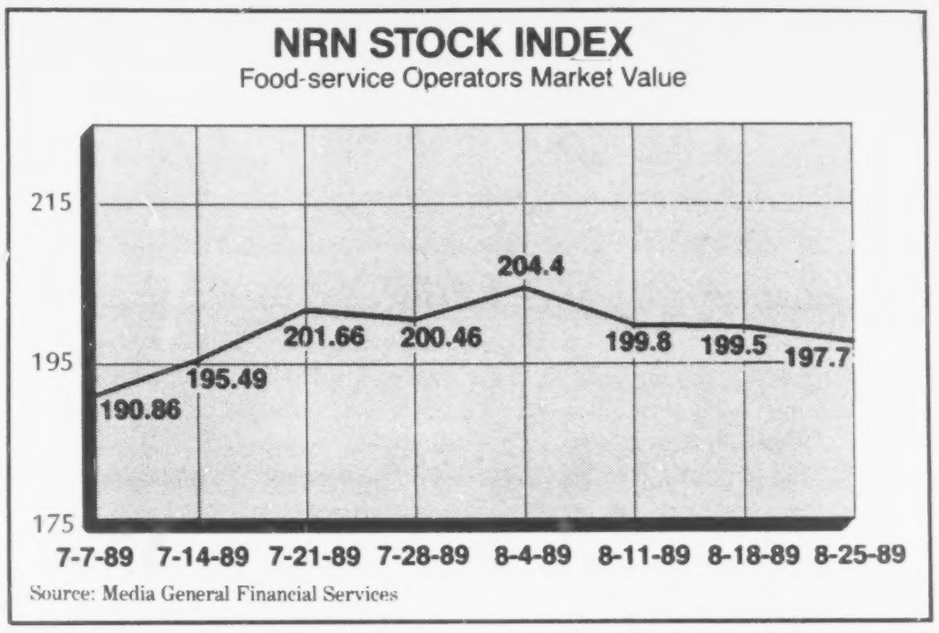
By Milford Prewitt

NEW YORK — While a stock market rally was pushing overall stock prices to a record-breaking high in August, restaurant stocks gave up some of the big gains they had achieved earlier in the year.

Restaurant stocks were left in the dust as a strong bull pushed the Dow Jones Industrial Average beyond its pre-October 1987 levels to close Aug. 24 at 2,734.64, a 56-point, 2-percent increase.

The NRN Stock Index, the broadest gauge of restaurant stock performance, has been running about 25 percent higher than year-to-date tallies, but declined about 3 percent since reaching a high in early July.

The Dow's previous high — which occurred nearly two years to the day in 1987 on Aug. 25 — was 2,722.42. Two months later, the stock market collapsed 508 points on a single day.



Source: Media General Financial Services

> *'I don't know if investors perceive some industry problems, but what the market is clearly showing is that investors are confident about the big, highly-capitalized companies and are backing away from consumer-oriented stocks.'*

"I don't know if investors perceive some industry problems, but what the market is clearly showing is that investors are confident about the big, highly-capitalized companies and are backing away from consumer-oriented stocks," said Joseph Doyle of Smith Barney in New York.

Bryan Elliott, a restaurant industry analyst for Robinson-Humphrey Co. Inc., in Atlanta, agreed, saying, "For the first six months of this year, restaurant stocks were viewed as a defensive, recessionary-resistant, non-economically sensitive investment."

"But the market psychology has swung back towards the cyclical stocks that are economically sensitive, based on the broad macro-economic assumption that the probability of a recession has diminished," Elliott said.

Some analysts say the widely publicized disclosures of financial and market setbacks by such industry players as McDonald's, Pantera's Corp., and Morrison Inc., discourage investment in the industry.

For instance, Pantera's Corp. is offering to sell some of its Pizza Inn restaurants to raise capital, Morrison's flat earnings led to a $4 tumble in its stock price, and McDonald's second quarter sales were flat.

When McDonald's reported disappointing financial results in July, said Caroline Levy of Shearson Lehman Hutton in New York, "it sent a signal that if the industry leader is doing poorly, maybe that's the case for the whole industry."

Steven Rockwell, an analyst with Alex. Brown in Baltimore, added that investors were also worried about declines in same-store growth in a period when yearly sales should be peaking.

"The market pays a lot of attention to same store sales growth, and since the beginning of the quarter, the same-store sales trend has been flat," Rockwell said. "This summer we have seen a slowdown in sales, most visibly with McDonald's, and I think that is tainting others."

Howard Hansen, an analyst with Kidder, Peabody, said he believes there are enough stellar performers to encourage investment. He noted that Sbarro, Chili's, and Cracker Barrel are outperforming industry averages.

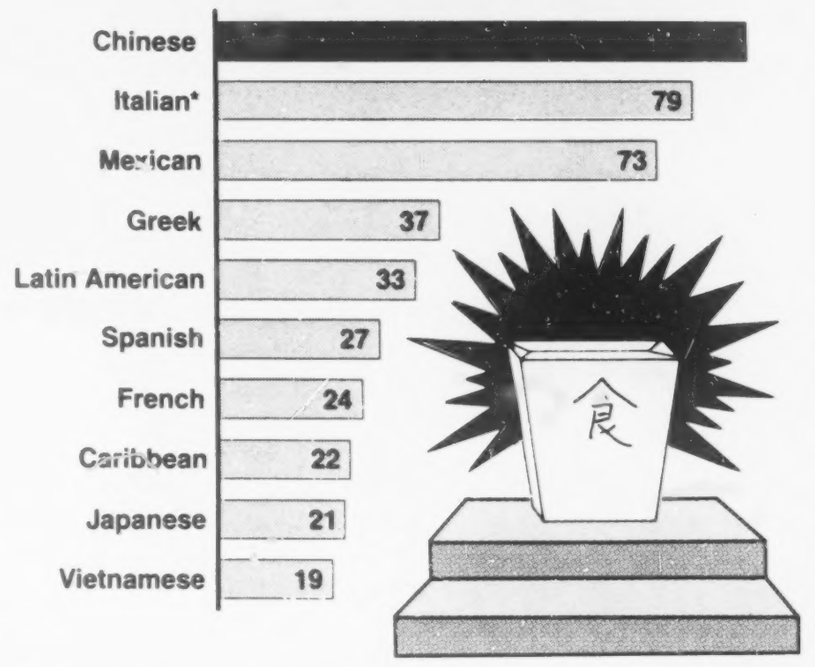
Doyle, the Smith Barney analyst, is also mildly upbeat about the long-term prospects for restaurant investment. He said if the bull market continues to favor the large, capital-intensive companies, the "bullish sentiment" will spill over to the medium and smaller companies, like those that dominate the restaurant industry.

FACT FILE

A look at the statistics shaping the industry

CONSUMERS VOTE CHINESE FAVORITE ETHNIC FOOD

(percentage of respondents who have eaten the following types of food on or off premises sometime in the past, and eaten them on or off premises in the past month)



Source: National Restaurant Association

*Excludes pizza

FOOD PRICE OUTLOOK

Canned cling peach pack drops

California canners didn't get the **cling peach** crop they were counting on earlier in the year. As the pack heads toward completion, it appears it will be 5 percent or 6 percent less than last year. In addition, sizes are running smaller. Expect prices to hold fairly steady through to next spring.

Expect a **fruit cocktail** pack volume about the same as last year. But prices may be higher. At least one ingredient, **pears,** is down in yield. In addition, most fruit is softer than usual, not ideal for fruit cocktail or fruits for salad. Pears are moving up substantially in price, reaching the highest price in the last three decades.

Imported canned hams are moving up in price . . . **Turkey** demand is running ahead of production. Although stocks are strong, prices may be moving up before the holiday season . . . The **canned tuna** pack is up from last year, although imports are barely holding their own. Expect lowering prices . . . Breakfast operations shouldn't expect lower **egg** prices; demand still outpacing supply.

Banana imports are increasing and prices are dropping. Prices may stay down through the fall . . . Don't look for **dry bean** prices to fall much on a bigger harvest than last year. It's still below normal, and export outlook continues strong.

The **canned tomato** pack, which will end about mid-October, is running better than 35 percent higher than last year. Expect prices to drift lower . . . **Frozen broccoli** prices will likely stay up, because fresh market prices have been so good that freezers have been paying premium prices for what's available for processing.

— Patt Patterson

NRN FINANCIAL DIGEST

Collins net income gains 4%

LOS ANGELES — Collins Foods International Inc. said poor results from its Kentucky Fried Chicken operations partially offset gains from its Sizzler and International divisions to hold the company to a 4 percent rise in net income, to $7.8 million, for its first quarter ended July 23.

Revenues increased 1 percent year-over-year, to $130.9 million, for the latest quarter.

Collins operates 207 KFC restaurants in the United States, 84 restaurants internationally, and 634 steak, seafood and salad Sizzler restaurants through its 64 percent owned Sizzler Restaurants International Inc.

Collins blamed weakness in its key Southern California market and high broiler prices for the substantially lower operating income and flat sales logged by its KFC unit.

Despite a slowdown in its core Southern California market, Sizzler Restaurants International Inc. posted a 13-percent increase in net income, to $6 million, on an 8-percent rise in revenue, for its first quarter ended July 23.

Profits fall at Family Steak Houses

NEPTUNE BEACH, Fla. — Family Steak Houses of Florida, a franchisee of Ryan's Family Steak Houses Inc., said high food and labor costs contributed to a drop in net income of 52 percent, to $220,400, on a 41 percent rise in sales, to $11.5 million, for its second quarter ended June 28.

The company said the higher costs were the result of an effort to improve service.

"While these measures have been very costly and adversely affected the net margins during the second quarter, we feel that this additional cost will more than pay for itself in the long run as indicated by recent sales trends," said company president Eddie L. Ervin Jr.

For the six months ended June 28, the company's net earnings fell 30 percent, to $716,800, from last year's first half, partly because of an accounting change that boosted the year-ago figure.

Sales increased 48 percent, to $23.1 million.

Old Spaghetti Warehouse income up

GARLAND, Texas — Old Spaghetti Warehouse Inc., which operates a chain of 13 midscale Italian dinner houses, said net income advanced 138 percent, to $600,246, on a year-to-year increase in revenues of 22 percent, to $7.6 million, for its fourth quarter ended July 1.

The company opened two restaurants during the calendar year.

For the July-ended year, net income increased 71 percent, to $1.9 million, on a 20 percent gain in revenues, to $28 million.

Old Spaghetti Warehouse recently amended a registration filed with the Securities & Exchange Commission to reduce an offer of common shares to 560,000, after a shareholder withdrew 120,000 shares from the offer.

FOCUS | OPINION

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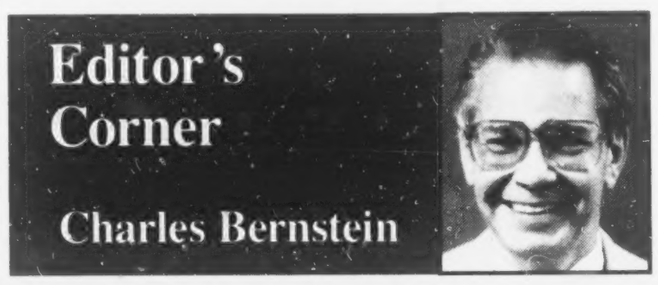
A new Olympics deal for American chefs

American chefs have soared in achievement and stature over the last several years. They have become celebrities and restaurant owners, so that the term owner-chef is a common one rather than the rarity it was years ago.

In fact, chefs like Spago's Wolfgang Puck, Lafitte's Landing's John Folse, and K Paul's Paul Prudhomme are better known around the country than most restaurant owners or chain executives. They have made themselves exceedingly visible while becoming stars in their own right.



Almost solely because of Prudhomme's reputation as the father of Cajun cooking, crowds jammed a temporary K Paul's that he opened in New York City a few summers ago, with consistent waits of two or three hours. Now that Prudhomme has permanently opened K Paul's on lower Broadway in New York's Manhattan, the lines are again endless during the six weeks that he personally is there. Nor has it ever been easy to get into his original K Paul's in New Orleans.

Numerous other American chefs are also emerging on the national and international scene. One place where they gain recognition is the quadrennial Culinary Olympics in Frankfurt, West Germany, and many are looking forward to the next competition in October 1992.

Unfortunately, some U.S. authorities have sought to downplay the Culinary Olympics by claiming that they are not Olympics, just "friendly events." They should also signify the emergence of American cuisine and American chefs as an international force. The competition should be taken every bit as seriously as the Summer and Winter sports Olympics.

Once regarded as mediocre on the world scene, the five-member U.S. national team won the prestigious hot-food dinner (for paying customers) competition at the 1984 and 1988 Culinary Olympics. It finished a close second to Canada in 1984 in the combined scoring of all major events and just behind Switzerland and West Germany in 1988.

Meanwhile, the 10-member U.S. regional team won 15 gold medals in 1988, and a number of American corporate teams also won medals.

Ferdinand Metz, president of the Culinary Institute of America (CIA) and U.S. team manager three straight times, was justifiably proud of the group. Certainly, nobody could fault its ability, intensive training, preparation and performance.

It would be stretching the imagination to say that America must finish first in all competitions, or it is a total loss. Growth and development are important factors. Furthermore, as long as the U.S. is first in the main hot-foods event and does well in the other main categories (hot food displayed cold, cold platters and pastries), this seems to be a happy situation.

Then why break up a winning combination? This is a question vehemently posed by Metz in the aftermath of his replacement as team manager.

The answer is that as great a job as Metz has done, the team has become too in-bred, with the same team members selected each time. Surely, out of the hundreds of leading American chefs, others can be found to represent the U.S. just as well or maybe even better for the 1992 Olympics.

Of 150 chefs who went through two years of tryouts for the 1988 Culinary Olympics, a national team of five chefs finally was selected. Four were repeats from the 1984 team: Timothy Ryan, the CIA's culinary education director, team captain; Mark Erickson, a CIA department chairman; Harmut Handke, executive chef of The Greenbrier and a member of both the 1980 and 1984 teams; and Dan Hugelier, executive chef of the Amway Grand Plaza Hotel, Rockford, Mich.

The only new member of the national team was Christopher Northmore, the executive pastry chef at the Cherokee Town & Country Club, Atlanta, who was selected for his dessert expertise.

Besides being manager, Metz was one of five judges who chose the team. We have no doubt of his complete integrity in the selection process, but we feel a change will be beneficial. In one sense the CIA's dominance on the U.S. team is a tribute to that school's quality. Yet it is too much of a good thing.

We are pleased that the U.S. Culinary Team Foundation, consisting of the American Culinary Foundation of chefs and the National Restaurant Association, has had the courage to select a new manager and switch the headquarters away from the CIA. Keith Keogh, Disney World's EPCOT Center executive chef, is the manager. Thus the team's home base will be in Orlando, Fla., rather than in Hyde Park, N.Y.

Ted J. Balestreri, former NRA president and the new chairman of the Culinary Team Foundation, has aptly pledged that the 1992 team will be organized so that "every region of our great country as well as the foods indigenous to these regions will be proudly represented."

Some sources have insisted that regional tryouts for the team were not utilized and that bias was shown in team selection. If that were the case, the bias might have been built into the system rather than reflecting deliberate favoritism.

Four regional tryouts have already been slated for early 1990, and the national team for the 1992 Culinary Olympics will be composed of the top-scoring chef from each of four regions and the leading overall pastry chef, in what Balestreri calls "a true test of the best and brightest of our industry."

Other top-scoring chefs from each region will be named to their respective regional teams: Northeast, Southeast, Central and West.

Next time not only is the best team more likely to be chosen in each case; the team will be more representative of the best chefs from each region.

LETTERS

Bar Management calls for a toast

Editor, NRN:

I would like to tell you how much I enjoy reading Bar Management in Nation's Restaurant News. Our company is involved in marketing and promotions for hotels, restaurants and nightclubs nationwide, and that is one of the reasons we look forward to reading it.

Please extend my compliments to special editor Mort Hochstein and everyone involved in the publication.

— Patrick Henry
president
Patrick Henry Creative Promotions
Stafford, Texas

Students need chance to prove capabilities

Editor, NRN:

I am currently a senior at Ashland University in Ohio. I am enrolled as a hotel and restaurant major and am the president of the hospitality club. I read your magazine every week and share it with the members of the club.

I have become very interested in the articles and editorials written by other students talking about job recruiters and interviews that they go through. I strongly agree that we are properly prepared, and then the recruiter lets us down by not being professional or has a lack of knowledge about the company he is representing.

There has been something going on in the industry that has been a very big issue on my mind as well as the minds of others I know. The question is addressed to everyone in the industry: "Why aren't hotel and restaurant management majors hired for summer and semester internships when you will hire anyone off the street?"

As a hotel restaurant major I am offended by this. I feel that I am prepared to work in a professional manner and also have a basic knowledge of the industry. We also need the experience so that we can have something on our résumé to help in our success and to carry on the industry for years to come.

Internships last only a few months, although there is a very high percentage of graduates returning to the place of their internship. Can you guarantee that the person off the street will last longer than the intern?

I have seen too many friends change majors because companies would not hire them for lack of experience or the internship period was too short. What is going to happen this year when we interview for permanent employment? Can we get good jobs despite the poor quality of some internships? What experience do we have?

Finally, all that I am asking is that you remember that we are out there willing to work and prove ourselves. You need to give us that chance. So let's work together!

— John Gruber
student
Ashland University
Ashland, Ohio

Ponderosa ropes Bonanza

(Continued from page 1)
duct business as one chain.

"They both have a solid cadre of franchisees, and that will help," he said. "But their size won't alter our strategy. We just have to do what we've been doing right along."

The Bonanza acquisition was Metromedia's second major raid in the restaurant industry in as many months.

Previously, the telecommunications conglomerate sealed an agreement to acquire up to 90 percent of the Dallas-based S & A Restaurant Corp., the operator of the Steak & Ale and Bennigan's dinner-house chains.

Following weeks of back-room negotiations, Metromedia struck the definitive agreement that is expected to be finalized in 30 to 60 days. Metromedia Corp. will tender $10.25 for each outstanding share of USA Cafes, parent company to Bonanza. The stock had been trading at $9 to $10 per share before the deal.

"Metromedia has shown in this deal and others that it's a very aggressive company and serious about our industry," said Jeff Rogers, chief executive of the Dallas-based USA Cafes. "I believe that this is a real positive step for both operations."

Rogers, however, declined to comment on major issues arising from the sale, such as the future of both concepts, solutions to the problem of geographical overlap between Ponderosa and Bonanza units, and the personnel makeup of a new management team.

A Ponderosa steak-house unit.

Rogers' counterpart, Ponderosa's chief executive J. Michael Jenkins, also offered no comment.

Ponderosa's acquisition of Bonanza carries more than a trace of irony, as four years earlier Ponderosa and its then chief executive, Gerald Office, spent in excess of six figures erecting a legal blockade against Bonanza's $16 per-share, $155 million takeover offer for the chain.

Three weeks ago USA Cafes issued a statement confirming industry rumors that it had begun negotiations to sell the company. Reportedly, the Bonanza sale discussions were sparked by Sam and Charles Wyly, co-founders of the 25-year old chain. Together, the Wylys own 47 percent of the USA Cafes stock.

For the 1989 fiscal year, Ponderosa reported systemwide sales hit $710 million while Bonanza's are projected to approach $620 million.

Bonanza's franchisees, who account for about 95 percent of the chain, voiced their reactions regarding the sale.

"I think there will have to be some dramatic changes to integrate both concepts at this point," said Gary Fears, a 52-unit Bonanza franchisee in St. Louis. "In this city alone there are at least 12 situations where both concepts are literally across the street from each other. But any type of plan would just be speculation at this point."

A Bonanza restaurant unit.

Bill Johnson, president of the Bonanza area Developer's Association and a 50-unit franchisee in Nashville, Tenn., doubts that the new management would pit both chains against one another.

"You always hope that when an acquisition of this caliber takes place, things will always be better," he said.

Roger Lipton, who tracks the restaurant industry for the New York firm of Ladenburg Thalman, feels that the purchase is a strategic one for Metromedia and its billionaire chairman, John Kluge.

"He [Kluge] could really make something of Ponderosa, which had been mismanaged for years," Lipton said. "With Bonanza, he gets a good management team in addition to profitable stores."

Steven Lewis, president of the Ponderosa Franchisee Association and a 38-unit franchisee, believes that the potential melding of the two concepts would create good synergy.

"You can't help thinking positive when you look at the whole picture," Lewis said. "Now the companies will not be splitting dollars but combining dollars. There will be more signage and more national exposure."

Arby's says no to buyout

(Continued from page 1)
Roberts, who is widely credited with engineering Arby's turnaround, also stated in his letter of resignation that Posner's actions "greatly enlarged" his concerns about DWG. He complained of an inability to "exercise independent judgement" as a director as well as a lack of duties, authority, responsibility and access to information about DWG as its vice chairman.

In denying the allegations, DWG senior vice president Renee Mottram said, "It is our opinion that the statements contained in the letter were untrue in all material respects."

Meanwhile, the bidding group of eight franchisees, which controls nearly one-quarter of the 2,100-unit Arby's system, said it was prepared to turn up the heat on the board of directors, shareholders and lenders of DWG, which has owned Arby's since 1984.

In its original letter to Posner, the group, R.B. Partners Ltd., said it was deeply concerned about the mounting legal and financial problems facing Posner and his Miami-based holding company.

DWG has spent the past five months attempting to fend off a $572 million hostile takeover bid by New York-based Granada Investments. Two other companies controlled by Posner are in bankruptcy, and Posner himself has been plagued with legal problems, including a 1987 conviction for income-tax evasion and allegations, levied last fall by the Securities & Exchange Commission, that he tried to conceal a stock purchase.

"We believe that these problems will lead either to the sale of Arby's Inc. to another party or the inability of DWG to support adequately the growth plans of Arby's Inc. and its franchisees. Neither of these conditions is acceptable to us," the R.B. Partners letter said.

"We are convinced that the present circumstances of DWG and Victor Posner are potentially threatening to the future of the Arby's system and that the best way to ensure our future is through franchisee ownership of the system," the letter said.

By going public with the bid, the group hopes to discourage other suitors.

"Since no other bidder can be assured of the full support of Arby's franchisees and the management of Arby's Inc., we do not believe that any other bidder will be prepared to pay as much as or a higher price for Arby's Inc. than will R.B. Partners," the group's letter said.

Thus far, Posner has refused to meet with R.B. Partners to discuss the offer, said Dennis Cooper, senior vice president of RTM Inc.

"I personally think the buyout is a great idea," said John Parnell, a seven-unit Arby's franchisee from Georgetown, Texas, who is not a member of the partnership.

R.B Partners vowed in its letters to Posner and franchisees that, if successful, it would give all franchisees the opportunity to purchase shares in the company that would own Arby's Inc. on the same basis as R.B. Partners will buy them.

"If I had an opportunity to buy in at a good price, I would do it," Parnell said.

Not so for Sybra Inc., Arby's second-largest franchisee, with 135 units, said Charles Hyslop, the company's president and chief executive.

"We're real happy with the way we're growing right now," Hyslop said. "We think the best use of our money is to plow it back into the Sybra chain to keep it growing."

Hyslop also said that his company has no interest in becoming a minority shareholder in a company, and that even if it were interested, the disclosure and shareholder approval restrictions placed on Sybra as a public company would only serve to hamper the franchisees' negotiations.

Hyslop did say he would prefer to see Arby's Inc. in the hands of franchisees rather than some outside company, but added that any buyout poses a risk for the chain.

"Even with those Arby's franchisees, that $200 million-plus has to come from somewhere — whether it's borrowed or whether it's from deep pockets." Hyslop said. "And if it goes toward buying out the franchisor, then it's not available to grow the franchisee system. If that's the case, then I wonder, Well, would it be better put to use in growing the system?"

In just three years, the Roberts-led management team, which was installed by Posner, 71, has improved systemwide sales by 50 percent, to $1.2 billion.

In 1988, Arby's posted operating profits of $20.7 million on revenue of $153.8 million.

The partnership had maintained that the pressures on Posner and DWG and Arby's relatively low compensation of key officers would result in a loss of current management. They pointed to the recent departure of chief operating officer Ira Hermann.

The partnership stated in its letter that it had intended to offer long-term employment contracts and an equity stake in the new company to all Arby's top executives.

And it predicted the loss of by management.

"This team has great talent and a great track record," the partnership said. "We do not think Arby's can retain them for long unless the present ownership is replaced by a stable, constructive ownership situation and unless an employment arrangement is put in place that rewards them properly for the value they are creating for everyone else in the Arby's system."

Hyslop, of Sybra, termed R.B Partner's offer of $200 million "in the ballpark."

Included in R.B. Partners are Paul T. Bailey; Robert L. Davis; Lunan Corp.; Charles, George and Myron Nadler; Restaurant Management Inc.; Rochelle Holding Co.; RTM Inc; and Joseph G. Smaltz.

Roberts was not available for comment.

Rax eases royalties for franchises

(Continued from page 3)
taking action.

"He's certainly gotten my attention," said Douglas of D.H.D.

It might bother some people, but the system needed something like this," Benson said.

"I'm very pleased with what he's been doing," Barney said.

The new fee structure is Hermann's most decisive action since he joined Rax. But the former Arby's operations specialist has also added several new products that have collectively hoisted sales at company units by 6 percent year-over-year, according to Hermann.

"We threw in curly fries, which now account for 9 percent of sales, and express salads for our drive-thrus," he said. The prepackaged salads, which were added long ago by such competitors as McDonald's, Arby's and Burger King, account for 3 percent to 4 percent of Rax's sales, Hermann said.

Similarly, "we added a grilled chicken sandwich," he said. "It's a mesquite-flavored chicken breast topped with lettuce, tomato and mayonaisse, served on a whole-wheat bun. It's doing 13 percent of sales. The profits have been weakened by the rising cost of chicken, but it's helped us."

A slew of fast feeders added a similar product during the second quarter of the year.

Rax has been wheezing since the summer of 1988, when the chain's signature food bar suddenly fell out of favor with consumers. Sales plummeted by an estimated 17 percent.

Under Hermann's predecessor, Larry Ritter, Rax attempted to return the chain's focus to sandwiches. But the system continues to suffer from widespread discounting by competing systems, according to Hermann.